

***MIDDLESEX COUNTY RETIREMENT SYSTEM***

***FINANCIAL STATEMENTS***

***YEAR ENDED DECEMBER 31, 2008-2010***

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**YEAR ENDED DECEMBER 31, 2008-2010**

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# ***Financial Section***



100 Quannapowitt Parkway  
Suite 101  
Wakefield, MA 01880  
T. 781-914-1700  
F. 781-914-1701  
[www.powersandsullivan.com](http://www.powersandsullivan.com)

## Independent Auditors' Report

To the Honorable Middlesex Retirement Board  
Middlesex County Retirement System  
Billerica, Massachusetts

We have audited the financial statements of the Middlesex County Retirement System (MCRS), as of and for the year ended December 31, 2008, 2009, 2010, as listed in the table of contents. These financial statements are the responsibility of the management of the Middlesex County Retirement System. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the Commonwealth of Massachusetts' Division of Public Employee Retirement Administration Rules and Regulations 840 CMR 25.00: "The Conduct of Field Examinations of Contributory Retirement Associations," in existence as of August 27, 2004. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully described in Note 2, the MCRS prepares its financial statements on the basis of accounting and reporting practices prescribed by the Commonwealth of Massachusetts' Commissioner of Public Employee Retirement Administration Commission (PERAC). These practices differ in some respects from generally accepted accounting principles. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in conformity with generally accepted accounting principles.

As more fully described in Note 12, The MCRS contends that the Commonwealth of Massachusetts owes the System funds dating back to the abolishment of Middlesex County in 2001 for the unfunded liability of the Middlesex County retirees. As a result, the MCRS stopped making 3(8)(c) payments to the State Employees Retirement System while the State Board has intercepted cost of living reimbursements due from the Commonwealth. The amounts in dispute have not been included in the financial statements.

In our opinion, except for the effect of the matters discussed in the two paragraphs above, the financial statements referred to above present fairly, in all material respects, the financial position of the Middlesex County Retirement System as of December 31, 2010, 2009, 2008, and the results of its operations and changes in its fund balances for the year then ended, on the basis of accounting described in Note 2.

December 20, 2011

# Financial Statements

# STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCE

DECEMBER 31, 2008-2010

	December 31, 2010	December 31, 2009	December 31, 2008
<b>Assets</b>			
Cash.....	\$ 25,122,774	\$ 24,838,003	\$ 35,723,033
Investments.....	741,930,807	659,548,491	555,622,758
Interest due and accrued.....	2,958	321	16,247
Receivables:			
Member deductions.....	3,131,737	3,094,519	2,912,803
Members contributions.....	3,816	3,816	22,594
Member make-up payments and redeposits.....	290,616	269,261	280,009
Due from other funds.....	-	583,465	564,713
Reimbursements from other systems.....	1,098,088	785,014	396,282
Pension fund appropriations.....	3,520,303	-	-
Other.....	386,574	12,881	28,601
Capital assets, net of accumulated depreciation.....	5,890,910	-	76,231
Total assets.....	<u>781,378,583</u>	<u>689,135,771</u>	<u>595,643,271</u>
<b>Liabilities</b>			
Accounts payable.....	(91,779)	(51,813)	(44,436)
Other.....	-	-	(23,357)
Total liabilities.....	<u>(91,779)</u>	<u>(51,813)</u>	<u>(67,793)</u>
Net assets available for pension benefits.....	<u>\$ 781,286,804</u>	<u>\$ 689,083,958</u>	<u>\$ 595,575,478</u>
<b>Fund Balance</b>			
Annuity Savings Fund.....	\$ 348,880,771	\$ 330,188,697	\$ 311,392,432
Annuity Reserve Fund.....	85,458,912	83,557,603	81,027,971
Special Military Service Credit Fund.....	83,769	83,519	85,558
Pension Fund.....	3,050,928	10,917,653	12,795,681
Pension Reserve Fund.....	<u>343,812,424</u>	<u>264,336,486</u>	<u>190,273,836</u>
Total fund balance.....	<u>\$ 781,286,804</u>	<u>\$ 689,083,958</u>	<u>\$ 595,575,478</u>

See notes to financial statements.

# STATEMENT OF CHANGES IN FUND BALANCE

YEAR ENDED DECEMBER 31, 2010

	Annuity Savings Fund	Annuity Reserve Fund	Military Service Fund
Income:			
Receipts.....	\$ 37,656,600	\$ -	\$ -
Rent.....	-	-	-
Investment income.....	1,072,297	2,495,314	250
Total income.....	38,728,897	2,495,314	250
Disbursements and depreciation:			
Disbursements.....	(5,641,800)	(14,260,573)	-
Depreciation.....	-	-	-
Total disbursements and depreciation....	(5,641,800)	(14,260,573)	-
Net change in fund balance before interfund transfers in (out).....	33,087,097	(11,765,259)	250
Interfund transfers in (out), net.....	(14,395,023)	13,666,568	-
Net change in fund balance.....	18,692,074	1,901,309	250
Fund balance at beginning of year,.....	330,188,697	83,557,603	83,519
Fund balance at end of year.....	\$ 348,880,771	\$ 85,458,912	\$ 83,769

See notes to financial statements.

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	Pension Fund	Pension Reserve Fund	Expense Fund	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
\$	77,559,274	\$ 293,235	\$ -	\$ 115,509,109
	-	-	436,404	436,404
	<u>-</u>	<u>78,456,271</u>	<u>6,419,572</u>	<u>88,443,704</u>
	<u>77,559,274</u>	<u>78,749,506</u>	<u>6,855,976</u>	<u>204,389,217</u>
	(85,419,907)	-	(6,697,141)	(112,019,421)
	<u>-</u>	<u>-</u>	<u>(166,950)</u>	<u>(166,950)</u>
	<u>(85,419,907)</u>	<u>-</u>	<u>(6,864,091)</u>	<u>(112,186,371)</u>
	(7,860,633)	78,749,506	(8,115)	92,202,846
	<u>(6,092)</u>	<u>726,432</u>	<u>8,115</u>	<u>-</u>
	(7,866,725)	79,475,938	-	92,202,846
	<u>10,917,653</u>	<u>264,336,486</u>	<u>-</u>	<u>689,083,958</u>
\$	<u>3,050,928</u>	\$ <u>343,812,424</u>	\$ <u>-</u>	\$ <u>781,286,804</u>



# STATEMENT OF CHANGES IN FUND BALANCE

YEAR ENDED DECEMBER 31, 2009

	Annuity Savings Fund	Annuity Reserve Fund	Military Service Fund
Income:			
Receipts.....	\$ 36,540,607	\$ -	\$ -
Investment income.....	<u>1,562,325</u>	<u>2,424,591</u>	<u>416</u>
Total income.....	38,102,932	2,424,591	416
Disbursements.....	<u>(5,449,381)</u>	<u>(13,277,671)</u>	<u>-</u>
Net change in fund balance before interfund transfers in (out).....	32,653,551	(10,853,080)	416
Interfund transfers in (out), net.....	<u>(13,857,286)</u>	<u>13,382,712</u>	<u>(2,455)</u>
Net change in fund balance.....	18,796,265	2,529,632	(2,039)
Fund balance at beginning of year.....	<u>311,392,432</u>	<u>81,027,971</u>	<u>85,558</u>
Fund balance at end of year.....	<u>\$ 330,188,697</u>	<u>\$ 83,557,603</u>	<u>\$ 83,519</u>

See notes to financial statements.

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Pension Fund	Pension Reserve Fund	Expense Fund	Total
\$ 79,570,763	\$ 455,064	\$ -	\$ 116,566,434
-	73,117,751	6,884,693	83,989,776
79,570,763	73,572,815	6,884,693	200,556,210
(81,435,985)	-	(6,884,693)	(107,047,730)
(1,865,222)	73,572,815	-	93,508,480
(12,806)	489,835	-	-
(1,878,028)	74,062,650	-	93,508,480
12,795,681	190,273,836	-	595,575,478
\$ 10,917,653	\$ 264,336,486	\$ -	\$ 689,083,958

# STATEMENT OF CHANGES IN FUND BALANCE

YEAR ENDED DECEMBER 31, 2008

	Annuity Savings Fund	Annuity Reserve Fund	Military Service Fund
Income:			
Receipts.....	\$ 35,393,741	\$ -	\$ 1,866
Investment income.....	1,676,975	2,401,590	499
Total income.....	37,070,716	2,401,590	2,365
Disbursements.....	(6,580,633)	(12,471,213)	-
Net change in fund balance before interfund transfers in (out).....	30,490,083	(10,069,623)	2,365
Interfund transfers in (out), net.....	(10,879,347)	10,475,302	(2,560)
Net change in fund balance.....	19,610,736	405,679	(195)
Fund balance at beginning of year.....	291,781,696	80,622,292	85,753
Fund balance at end of year.....	\$ 311,392,432	\$ 81,027,971	\$ 85,558

See notes to financial statements.

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Pension Fund	Pension Reserve Fund	Expense Fund	Total
\$ 72,676,983	\$ 17,086,789	\$ -	\$ 125,159,379
-	(232,297,775)	6,604,332	(221,614,379)
72,676,983	(215,210,986)	6,604,332	(96,455,000)
(78,377,797)	-	(6,604,332)	(104,033,975)
(5,700,814)	(215,210,986)	-	(200,488,975)
(7,151)	413,756	-	-
(5,707,965)	(214,797,230)	-	(200,488,975)
18,503,646	405,071,066	-	796,064,453
\$ 12,795,681	\$ 190,273,836	\$ -	\$ 595,575,478

# STATEMENT OF INCOME

YEARS ENDED DECEMBER 31, 2008-2010

	December 31, 2010	December 31, 2009	December 31, 2008
Members deductions.....	\$ 34,028,476	\$ 33,546,773	\$ 32,946,429
Transfers of members' accounts from other systems.....	3,034,182	2,290,009	1,833,147
Members' makeup payments and redeposits.....	593,942	703,825	614,165
Reimbursements from other systems for Pension Fund.....	1,454,742	1,414,804	753,097
Employers' contributions to Pension Fund.....	76,087,532	78,120,707	71,923,886
Workers compensation.....	17,000	35,252	-
Contributions received from municipality.....	-	-	1,866
Federal grant reimbursement.....	59,431	91,414	124,566
Interest not refunded.....	66,806	58,101	49,372
Miscellaneous.....	166,998	305,549	912,851
Mellon Financial Corporation Settlement.....	-	-	16,000,000
Investment income (loss).....	88,443,704	83,989,776	(221,614,379)
Rental income.....	436,404	-	-
Total income.....	\$ <u>204,389,217</u>	\$ <u>200,556,210</u>	\$ <u>(96,455,000)</u>

See notes to financial statements.

# STATEMENT OF DISBURSEMENTS

YEARS ENDED DECEMBER 31, 2008-2010

	December 31. 2010	December 31. 2009	December 31. 2008
Refunds of members' accounts from Annuity Savings Fund.....	\$ 3,016,685	2,476,312	\$ 2,873,134
Annuity portion of retirement allowance payments from Annuity Reserve Fund.....	14,026,209	13,161,945	12,363,136
Option B refunds from Annuity Reserve Fund.....	234,364	115,726	108,077
Superannuation and termination retirement allowance payments from Pension Fund.....	62,342,806	58,987,084	56,872,904
Survivor allowance payments from Pension Fund.....	3,826,054	3,643,807	3,464,070
Ordinary disability payments from Pension Fund.....	1,277,373	1,258,246	1,239,174
Accidental disability payments from Pension Fund.....	11,118,426	10,867,227	10,411,300
Accidental death benefits from Pension Fund.....	2,576,719	2,428,079	2,282,041
Section 101 benefits from Pension Fund.....	548,203	632,900	634,187
Reimbursements to other systems from Pension Fund.....	2,420,710	2,334,114	2,212,645
COLA's paid from Pension Fund.....	1,309,616	1,284,528	1,261,476
Investment management and custodial fees from Expense Fund.....	3,821,344	4,070,503	3,674,169
Board member stipend from Expense Fund.....	12,000	12,000	12,000
Staff salaries from Expense Fund.....	1,330,911	1,425,715	1,362,495
Legal expenses from Expense Fund.....	51,385	171,225	351,830
Medical expenses from Expense Fund.....	247	759	544
Travel expenses from Expense Fund.....	19,503	13,948	30,603
Fiduciary insurance from Expense Fund.....	175,317	189,195	189,899
Professional services.....	99,320	75,267	-
Administrative expenses from Expense Fund.....	896,421	849,850	906,561
Building operations and maintenance from Expense Fund.....	277,569	-	-
Furniture and equipment expenses from Expense Fund.....	-	76,231	76,231
Education and training.....	13,124	-	-
Transfer of members accounts to other systems.....	2,625,115	2,973,069	3,707,499
Depreciation.....	166,950	-	-
Total disbursements and depreciation.....	\$ <u>112,186,371</u>	<u>107,047,730</u>	\$ <u>104,033,975</u>

See notes to financial statements.

# STATEMENT OF INVESTMENT INCOME

YEARS ENDED DECEMBER 31, 2008-2010

	December 31, 2010	December 31, 2009	December 31, 2008
Gross investment income.....	\$ 19,595,548	\$ 17,383,101	\$ 23,306,386
Add:			
Profit on the sale of investments.....	20,444,264	13,746,169	9,887,391
Increase in market value of securities.....	133,073,479	146,062,196	38,847,291
Less:			
Loss on the sale of investments.....	(3,605,430)	(40,071,117)	(48,365,019)
Decrease in market value of securities.....	(81,064,157)	(53,130,573)	(245,290,428)
Net investment income (loss).....	88,443,704	83,989,776	(221,614,379)
Investment income required:			
Annuity Savings Fund.....	1,072,297	1,562,325	1,676,973
Annuity Reserve Fund.....	2,495,315	2,424,591	2,401,590
Special Military Service Credit Fund.....	250	416	499
Expense Fund.....	6,419,571	6,884,693	6,604,332
Total investment income required.....	9,987,433	10,872,025	10,683,394
Excess (deficiency) of investment income requiring transfer from Pension Reserve Fund.....	\$ 78,456,271	\$ 73,117,751	\$ (232,297,773)

See notes to financial statements.

**NOTE 1 - PLAN DESCRIPTION**

The Plan is a contributory defined benefit plan covering all employees of governmental member units deemed eligible by the Middlesex Retirement Board (the Board), with the exception of school department employees who serve in a teaching capacity. The pensions of such school employees are administered by the Commonwealth of Massachusetts' Teachers Retirement System. The Plan is administered by the Middlesex County Retirement System (the System).

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the Plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

Massachusetts Contributory Retirement System benefits are, with certain exceptions, uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of 20 years of service or upon reaching the age of 55 with 10 years of service. Normal retirement for most employees occurs at age 65 (except for certain hazardous duty and public safety positions, whose normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Active members contribute between 5 and 11% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Public Employee Retirement Administration Commission's (PERAC) actuary. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth of Massachusetts' state law during those years are borne by the Commonwealth and are deposited into the Pension Fund. Cost-of-living adjustments granted after 1997 must be approved by the System and all costs are borne by the System.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current-year pension assessment. In past years, retirement systems were paying only the actual retirement benefits that were due each year. Systems had no statutory authorization to put aside money for the future benefits of employees who are currently employed. Large unfunded liabilities resulted from operating under this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations. In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the Retirement System's unfunded liabilities, and in some Systems have actually reduced such liability.



Administrative expenses, which were previously appropriated from the governmental entities whose employees are members of the system, are now paid from investment income.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent on several factors, including whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veterans' status and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions.

Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

## **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements are presented on the basis of accounting and reporting practices prescribed by PERAC. Financial accounting and reporting standards required by generally accepted accounting principles (GAAP) differ in some respects from the requirements of PERAC. The valuation of assets, liabilities and net assets are substantially the same. The main difference between GAAP and PERAC is that the financial statements for the changes in net assets/fund balances are presented in different formats.

The underlying accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by PERAC.

The *Annuity Savings Fund* is the fund in which members' contributions are deposited. Voluntary contributions, redeposits, and transfers to and from other systems are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw from the System with less than 10 years of service is transferred to the Pension Reserve Fund. Upon retirement, a member's contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of 10 years of inactivity.

The *Annuity Reserve Fund* is the fund to which a Member's account is transferred upon retirement from the Annuity Savings Fund and the Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The *Special Military Service Credit Fund* contains contributions and interest for members while on military leave for service in the Armed Forces who will receive creditable service for the period of that leave. Creditable service is granted provided the member returns to the same governmental unit within two years of the date of discharge from the military. Upon retirement, a member's contributions and interest are transferred to the Annuity Reserve Fund.

The *Pension Fund* contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The *Pension Reserve Fund* contains the amounts appropriated by the governmental units for the purpose of funding retirement benefits. Any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund and Military Service Credit Fund is credited to the Pension Reserve Fund. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain or loss of market valued investments as of the valuation date is credited to the Pension Reserve Fund.

The *Expense Fund* contains amounts transferred from investment income and rental income from the System's office building for the purpose of administering the System.

The *Investment Income Account* is credited with all interest and dividends derived from invested funds. At the end of the year, the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Special Military Credit Service Fund and Expense Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

### NOTE 3 - PLAN ADMINISTRATION

The System is administered by a five-person Board of Retirement consisting of the Chairman, who shall be elected by the other four board members, a second member elected by the Advisory Council, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Chairman	Thomas F. Gibson	Term Expires:	12/31/2014
Advisory Council Member	Brain P. Curtin	Term Expires:	12/31/2012
Elected Member	John Brown	Term Expires:	12/31/2011
Elected Member	Edgar W. McLeann	Term Expires:	12/31/2013
Appointed Member	James M. Gookin	Term Expires:	12/17/2015

Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the System. The Board must annually file a financial statement of condition for the System with PERAC.

The investment of the System's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer-Custodian:	)	\$10,000,000 Fiduciary
Ex-Officio Member:	)	RLI Insurance Company
Elected Members:	)	
Appointed Members:	)	\$1,000,000 Fidelity
Staff Employees:	)	National Union Fire Insurance

**NOTE 4 – OFFICE BUILDING**

The MCRS owns an office building that was purchased as an investment and for the administrative offices of the System. The building is a two story, 1986-built office building consisting of 62,222 square feet of net rentable area. The property is situated on a 4.23 acre site in Billerica, Middlesex County, Massachusetts. The building is currently 71% leased.

For the years ended December 31, 2008 and 2009 the office building assets were included as an investment in the System's portfolio. Operations for the building were accounted for by an LLC that was established to hold title to the building purchased by the Middlesex County Retirement System. For 2010 the Building has been reflected as a capital asset and all operations of the building have been included as part of the MCRS financial statements. The depreciated value of the building at the beginning of 2010 was \$6,038,257, resulting in a decrease in investment value of \$1,111,743 from the \$7,150,000 that was included as an investment for the year ended 2009. This adjustment is not deemed material to the financial statements taken as a whole.

**NOTE 5 – CASH AND INVESTMENTS**

The Middlesex County Retirement System has committed 92% of its investments to PRIT for a five year period and current investment regulations do not apply. The funds were transferred February 1, 2007.

Custodial Credit Risk - Deposits

At December 31, 2010, the carrying amount of the System's deposits totaled \$663,337 and the bank balance totaled \$3,726,569 which was covered by Federal Depository Insurance.

At December 31, 2009, the carrying amount of the System's deposits totaled \$513,679 and the bank balance totaled \$3,891,326 which was covered by Federal Depository Insurance.

At December 31, 2008, the carrying amount of the System's deposits totaled \$430,998 and the bank balance totaled \$3,860,122 which was covered by Federal Depository Insurance.

Investments

The System's investments over the past three years are as follows:

	December 31, 2010	December 31, 2009	December 31, 2008
Investment Type			
<u>Other Investments</u>			
PRIT Pooled Funds.....	\$ 712,294,666	\$ 619,072,812	\$ 504,880,617
Money Market Mutual Funds.....	24,459,437	24,324,324	35,292,037
Pooled Alternative Investments.....	11,805,306	13,545,323	14,528,773
Pooled Real Estate Funds.....	23,930,835	26,930,356	36,213,368
Total Investments.....	<u>\$ 772,490,244</u>	<u>\$ 683,872,815</u>	<u>\$ 590,914,795</u>

Approximately 95% of the Retirement System's investments consist of the Pension Reserve Investment Trust (PRIT) this investment pool was established by the Treasurer of the Commonwealth of Massachusetts, who serves as Trustee. PRIT is administered by the Pension Reserves Investment Management Board. The fair values of the positions in each investment Pool are the same as the value of each Pool's shares.

## NOTE 6 – CAPITAL ASSETS

Capital assets are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Building.....	40
Building improvements.....	40
Vehicles.....	3-5
Furniture and fixtures.....	7

Capital asset activity for the year ended December 31, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 672,657	\$ -	\$ -	\$ 672,657
<u>Capital assets being depreciated:</u>				
Buildings.....	5,417,136	-	-	5,417,136
Building improvements.....	1,086,623	-	-	1,086,623
Furniture and fixtures.....	533,617	-	-	533,617
Ford Pick-up truck with plow.....	-	19,603	-	19,603
Total capital assets being depreciated.....	7,037,376	19,603	-	7,056,979
<u>Less accumulated depreciation for:</u>				
Buildings.....	(948,000)	(135,428)	-	(1,083,428)
Building improvements.....	(190,158)	(27,166)	-	(217,324)
Furniture and fixtures.....	(533,617)	-	-	(533,617)
Ford Pick-up truck with plow.....	-	(4,356)	-	(4,356)
Total accumulated depreciation.....	(1,671,775)	(166,950)	-	(1,838,725)
Total capital assets being depreciated, net.....	5,365,601	(147,347)	-	5,218,254
Total governmental activities capital assets, net.....	\$ 6,038,257	\$ (147,347)	\$ -	\$ 5,890,910

Capital asset activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets being depreciated:</u>				
Furniture and fixtures.....	\$ 533,617	\$ -	\$ -	\$ 533,617
<u>Less accumulated depreciation for:</u>				
Furniture and fixtures.....	(457,386)	(76,231)	-	(533,617)
Total capital assets being depreciated, net.....	<u>\$ 76,231</u>	<u>\$ (76,231)</u>	<u>\$ -</u>	<u>\$ -</u>

Capital asset activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets being depreciated:</u>				
Furniture and fixtures.....	\$ 533,617	\$ -	\$ -	\$ 533,617
<u>Less accumulated depreciation for:</u>				
Furniture and fixtures.....	(381,155)	(76,231)	-	(457,386)
Total capital assets being depreciated, net.....	<u>\$ 152,462</u>	<u>\$ (76,231)</u>	<u>\$ -</u>	<u>\$ 76,231</u>

## NOTE 7 - ACTUARIAL VALUATION

The most recent actuarial valuation of the System was prepared as of January 1, 2010, and contained the following information:

The total covered employee payroll was \$384,933,571.

The actuarial accrued liability for active members was \$866,994,445

The actuarial accrued liability for retired participants and beneficiaries and inactive members was \$876,587,262.

The total actuarial accrued liability was \$1,743,581,707.

The actuarial value of assets was \$819,987,914.

The unfunded actuarial accrued liability was \$923,593,793.

The normal cost for the employer was \$17,236,424.

The principal actuarial assumptions used in the valuation were as follows:

Mortality: The RP-2000 Mortality Table and the RP-2000 Healthy Annuitant Mortality Table.

Investment return:	8.125%
Individual salary increase:	4.75% for Group 1 and 5.25% for Group 4
Cost of living adjustments:	3.0% of first \$12,000 of retirement income, increasing to \$13,000 on July 1, 2011 and to \$14,000 on July 1, 2012.
Rates of retirement:	Varies based upon age for general employees, police and fire employees.
Rates of disability:	For general employees, it was assumed that 50% of all disabilities are ordinary (50% are service connected). For police and fire employees, 10% of all disabilities are assumed to be ordinary (90% are service connected).
Actuarial cost method:	Entry Age Normal Cost Method.

**NOTE 8 - MEMBERSHIP**

The following table represents the System's membership at December 31, 2008-2010:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Active members.....	10,240	10,285	10,358
Inactive members.....	1,862	2,153	2,130
Disabled members.....	457	466	466
Retirees and beneficiaries currently receiving benefits.....	<u>4,449</u>	<u>4,362</u>	<u>4,316</u>
Total.....	<u><u>17,008</u></u>	<u><u>17,266</u></u>	<u><u>17,270</u></u>

**NOTE 9 – SCHEDULE OF FUNDING PROGRESS**

The Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/10	\$ 819,987,914	\$ 1,743,581,707	\$ 923,593,793	47.0%	\$ 384,933,571	239.9%
01/01/08	774,863,669	1,529,806,307	754,942,638	50.7%	360,206,302	209.6%
01/01/06	653,156,866	1,364,582,969	711,426,103	47.9%	318,738,544	223.2%

**NOTE 10 – MELLON FINANCIAL CORPORATION SETTLEMENT**

In June of 2003, the Middlesex Retirement Board filed a civil complaint against Boston Safe Deposit and Trust Company, Mellon Financial Corporation (Mellon), and Russell/Mellon Analytical Services, Inc. alleging, among other claims, breach of contract and negligent misrepresentation due to Mellon's failure to perform under its contractual custody arrangements with the Middlesex County Retirement System.

As custodian, Mellon was responsible for providing accurate independent pricing for all 60 portfolios in the system. Mellon was selected as the custodial bank for Middlesex in 1995 and renewed in 2001, through a competitive request for proposal process. Mellon's selection was approved by PERAC which has oversight authority for all Public Pension Systems in Massachusetts.

Following the sudden death of fund manager, James T. Kneafsey, Ph.D., founder and principal of Cambridge Financial Management, Inc. (CFM), the Middlesex Retirement Board learned for the first time that CFM was the only account where Mellon took market values for traded securities from a fund manager, and never had those values independently verified. Middlesex, after an in depth evaluation, discovered that the CFM portfolio which Mellon valued at \$1.6 million actually reflected a \$36-\$38 million loss.

The Middlesex Retirement Board promptly notified both PERAC and the Securities and Exchange Commission of the extraordinary loss. The Board retained Adler, Pollock & Sheehan, P.C. as its attorneys. In December of 2008, Mellon agreed to pay \$16,000,000 to the MCRS to settle all claims in the civil suit.

**NOTE 11 – TOWN OF ACTON SETTLEMENT**

In March of 2011 the Town of Acton and the MCRS reached a settlement regarding a civil suit filed by the Town of Acton. The Town of Acton sought relief relating to increased assessments due to investment losses incurred by the System. The MCRS agreed to credit against (i.e. to reduce) Acton's annual assessment by a total credit of \$300,000, which is to be credited, at a minimum, in installments of \$37,500 per year for a period of eight years or in larger installments until the total credit of \$300,000 is paid in full to Acton, whichever is earlier. Without limiting the foregoing, the MCRS intends to fund the credit through the System's operating budget and will not increase assessments to members of the System (including Acton) to fund the credit. The Parties agree that Acton shall receive the credit for each year that Acton is a member of the MCRS so that if Acton ceases to be a member of the MCRS, any remaining amount of the credit then outstanding will be forfeited. The Parties further agree that the MCRS may, at its discretion, credit all or a part of this obligation in one year. If the MCRS credits more than \$37,500 in any given year, the remaining years' obligations will be ratably and proportionally reduced.

**NOTE 12 – DISPUTE WITH THE STATE EMPLOYEES RETIREMENT SYSTEM**

The County of Middlesex was abolished on July 11, 1997, pursuant to Chapter 48 of the Acts of 1997. This Act required that active employees of Middlesex County be transferred to the Commonwealth. Therefore the MCRS was required to transfer the Annuity Savings Fund Balances of these transferred County employees to the State Employees Retirement System (SERS). This transfer, totaling approximately \$18 million, was made during calendar year 1998.

In December of 1999, the State Legislature enacted Massachusetts General Law, Chapter 34B (Abolition of County Government). This legislation, among other things, defines the components of determining the overall surplus or deficit of an abolished County upon transfer to the Commonwealth and how regional retirement systems will be affected. Sections 8 and 18 address unfunded liabilities in regional retirement systems succeeding abolished County Retirement Systems. The MCRS believes, as a result of the abolishment of Middlesex County, that the Commonwealth of Massachusetts owed them \$9,501,680 for the Unfunded Liability for retirees of the former Middlesex County.

The SERS does not agree with the assertion that the MCRS is owed \$9,501,680 to the MCRS. As a result, the MCRS has acted to stop 3(8)(c) reimbursements to the State Employees Retirement System and correspondingly the State System began to intercept all COLA reimbursements which were due the MCRS. The MCRS and the State Retirement Board are in current discussions on how to resolve this issue. As of the date of this report, there is no pending resolution to this dispute.

The above mentioned transactions have not been reported in these financial statements.